

**Audit of USAID/Mexico's Program to Develop  
Institutional Capacity to Diagnose, Control and  
Monitor Tuberculosis**

**Audit Report No. 1-523-02-009-P**

**May 6, 2002**

**Regional Inspector General / San Salvador**

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U.S. Agency for  
International  
Development



*RIG/San Salvador*

May 6, 2002

## **MEMORANDUM**

**FOR:** USAID/Mexico Director, Paul E. White

**FROM:** Acting RIG/San Salvador, Steven H. Bernstein

**SUBJECT:** Audit of USAID/Mexico's Program to Develop Institutional Capacity to Diagnose, Control and Monitor Tuberculosis (Report No. 1-523-02-009-P)

This memorandum is our report on the subject audit.

This report does not contain any recommendations for your action. Your comments to our draft report have been included, in their entirety, as Appendix II.

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## **Summary of Results**

As part of its fiscal year 2002 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/Mexico's program to develop institutional capacity to diagnose, control and monitor tuberculosis was on schedule to achieve planned results and to determine whether USAID/Mexico has plans for the use of the equipment purchased for the tuberculosis program. (See page 4.)

USAID/Mexico's tuberculosis program was not on schedule to achieve planned results as of December 31, 2001 because the Government of Mexico's Secretariat of Health stopped cooperating with USAID/Mexico in April 2001. The Secretariat of Health stopped cooperating because it had not been fully and effectively informed in advance of the signing of the Tuberculosis Strategic Objective Grant Agreement that it would be required to comply with U.S. laws and regulations governing procurement and the hiring of personnel. (See pages 4-6.)

USAID/Mexico plans to use the equipment purchased for the tuberculosis program as originally intended when problems in the implementation of the program are resolved. (See page 6.)

USAID/Mexico did not disagree with the findings in the report, but it stated that the Tuberculosis Strategic Objective Grant Agreement was signed with the previous Government of Mexico administration and that some of the Mexican officials who participated in the negotiations leading to this agreement no longer work in the same area. The new administration wanted to review the terms of the agreement and had problems understanding the use of Implementation Letters. (See pages 6-7.)

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## **Background**

Tuberculosis is a significant problem in Mexico, and this has serious implications for the United States because of the number of people living along both sides of the United States / Mexico border and because of the large volume of border crossings. The six Mexican states bordering the United States report approximately 20 percent of Mexico's tuberculosis cases, and these states have morbidity and mortality rates higher than the national average.

The fiscal year 1999 foreign operations appropriations committee report supported the establishment of a tuberculosis program in Mexico. In February 1999 the Governments of Mexico and the United States entered into a Memorandum of Understanding (MOU) on Cooperation in Prevention and Control of Tuberculosis. This MOU was followed by a Tuberculosis Strategic

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Objective Grant Agreement (SOAG) signed with the Secretariat of Health (SSA) on August 21, 2000. Under the SOAG, USAID agreed to contribute up to \$16 million, and the Government of Mexico agreed to contribute a minimum of \$6 million to the strategic objective of developing a sustainable and effective institutional capacity to diagnose, control and monitor tuberculosis in target areas. The completion date was September 30, 2004.

USAID/Mexico obligated \$3,720,803 under the SOAG in August 2000. USAID/Mexico records show that as of December 31, 2001, \$390,200 had been committed, and \$228,007 had been expended.

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## **Audit Objectives**

As part of its fiscal year 2002 audit plan, the Regional Inspector General/San Salvador performed the audit to answer the following questions:

- Is USAID/Mexico's program to develop institutional capacity to diagnose, control and monitor tuberculosis on schedule to achieve the planned results?
- Does USAID/Mexico have plans for the use of the equipment purchased for the tuberculosis program?

The audit scope was limited to the tuberculosis program results as of December 31, 2001. See Appendix I for a more detailed audit scope and methodology.

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## **Audit Findings**

### **Is USAID/Mexico's program to develop institutional capacity to diagnose, control and monitor tuberculosis on schedule to achieve the planned results?**

USAID/Mexico's tuberculosis program is not on schedule to achieve the planned results. The Secretariat of Health (SSA) ceased cooperating with USAID/Mexico in April 2001, eight months after the signing of the Tuberculosis Strategic Objective Grant Agreement (SOAG), and the USAID/Mexico program has therefore not been implemented. The SSA stopped cooperating, during the assessment of the SSA's procurement system and related financial management procedures and internal controls, because the SSA became frustrated with the USAID procurement and hiring processes. At the time the SOAG was signed, the SSA was not aware that U.S. laws and regulations governing purchasing and hiring would be applicable to it under the SOAG; otherwise, it would not have entered into the SOAG.

USAID/Mexico does not have results data for 2001 on the tuberculosis program indicators because of the SSA's lack of cooperation after March 2001. The most recent data available were provided by the SSA in March 2001 for the period

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January to September 2000, and were only for the four indicators included in the mission's Results Review and Resource Request report. The SSA has not provided any data for the other six indicators.

This was the first SOAG ever entered into with the Government of Mexico. As such, growing pains were inevitable in the learning process. These growing pains were exacerbated, however, when USAID/Mexico did not fully explain to the SSA, prior to the signing of the SOAG, all the U.S. legal requirements that would be applicable to the SSA under the SOAG. Before the SOAG was signed, funding, cost reimbursement, and cost-sharing were discussed in general, and the SSA was provided a copy of a chapter, translated into Spanish, from USAID's Automated Directives System. The mission intended to provide more detail with project implementation letters.

The lack of full and effective communication with the SSA regarding U.S. legal requirements created problems with the SSA because it did not understand the process that would be followed with program implementation letters. The SSA did not realize that the program implementation letters would detail legal requirements that were not set forth in the SOAG. Consequently, the SSA stopped cooperating with USAID/Mexico on the tuberculosis program, including refusing to accept equipment purchased for the SSA under the tuberculosis program, until such time as the SSA's concerns are resolved.

USAID/Mexico has been working to address the concerns of the SSA since July 2001 by negotiating an amendment to the SOAG. Most of the issues raised by the SSA have been resolved, and USAID/Mexico anticipates that the remaining issues will be resolved in the near future. Under the amendment to the SOAG, USAID will not be providing funds to the SSA. Instead, USAID and/or USAID contractors will purchase equipment which will be given to the SSA, and personnel to manage the program will be hired by USAID or through a non-governmental organization contracted by USAID. The performance monitoring plan will be amended to revise target dates.

A recommendation is not being made at this time because USAID/Mexico and the SSA are close to resolving the problems, but these findings highlight the need for effective communications with host governments, especially when the host government has not previously entered into an agreement with USAID.

As the USAID/Mexico Mission Director commented, part of the problem is attributable to the fact that the mission in Mexico itself was not familiar with how a SOAG worked, and the mission was learning how a SOAG worked at the same time that it was explaining the process to the SSA. A lesson learned for future situations is for USAID/Mexico to work closely with missions that have experience with SOAGs in order to better understand all the ramifications of such

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an agreement and to be better able to explain these ramifications to the host country.

**Does USAID/Mexico have plans for the use of the equipment purchased for the tuberculosis program?**

USAID/Mexico purchased lab equipment worth \$222,685 and computer equipment worth \$46,284 for use by the SSA in its tuberculosis program, but the SSA has refused to accept delivery of the equipment from USAID/Mexico until the problems between the SSA and USAID/Mexico are resolved. The computers, printers, microscopes and safety hoods in storage in Mexico City were inspected by the auditors, and they were in good condition and appeared to be operable. The vacuum sterilizer and coagulator analyzer in storage in Laredo, Texas, were not inspected.

Due to the delay in implementation of the tuberculosis program, the Government of Mexico's laboratories that were intended to benefit from the program have not received badly needed equipment and training for diagnosing, treating and tracking treatment of tuberculosis. When the problems with the SSA are resolved, USAID/Mexico plans to deliver the equipment to the SSA as originally contemplated. The SSA stated that it could still use the equipment.

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**Management  
Comments and  
Our  
Evaluation**

USAID/Mexico noted that the Tuberculosis Strategic Objective Grant Agreement was signed with the previous Government of Mexico administration and that some of the Mexican officials who participated in the negotiations leading to this agreement no longer work in the same area. This led to the new administration wanting to review the terms of the agreement and problems in understanding the use of Implementation Letters.

USAID/Mexico stated that the new agreement being negotiated will spell out requirements in order to limit the use of Implementation Letters. Additionally, under the new agreement, USAID will be in charge of all procurement and contracting of personnel.

Documentation obtained during the audit, however, reveals that, although the change in administration in Mexico may have contributed to the problems that arose in the program, two key people involved in the implementation of the original agreement remained in the same positions. The incidences that led to the current situation involved these two people, one of whom RIG/San Salvador interviewed and who conveyed her displeasure with all the additional requirements that were made known to her after the signing of the original agreement.

**Scope and  
Methodology****Scope**

We audited USAID/Mexico's tuberculosis program in accordance with generally accepted government auditing standards, and we conducted the audit at USAID/Mexico from February 11, 2002 through February 22, 2002. Additionally, we interviewed officials from the Secretariat of Health at their offices in Mexico City.

The audit covered USAID/Mexico's tuberculosis program under the Tuberculosis Strategic Objective Grant Agreement (SOAG) from August 21, 2000, through December 31, 2001. The SOAG obligated \$3,720,803, and the mission reported \$390,200 in commitments as of December 31, 2001, including \$260,298 for the purchase of equipment. The disbursements were not audited. Equipment costing \$143,894 was inspected, and original documentation was reviewed for the two pieces of equipment stored in a warehouse in Laredo, Texas.

We assessed risk exposure and the effectiveness of USAID/Mexico's management controls for assuring that program activities were on schedule to achieve planned outputs and results. We interviewed officials at USAID/Mexico and the Government of Mexico's Secretariat of Health and reviewed USAID/Mexico's files regarding this program. We reviewed the following management controls: (1) monitoring of program outputs and results through the mission's performance monitoring plan, the first year workplan and the March 2001 Results Review and Resource Request (R4) report, (2) USAID/Mexico's October 19, 2001 self-assessment of its adherence with the Federal Managers' Financial Integrity Act of 1982, (3) the mission's monitoring of indicator data for compliance with the ADS, and (4) policies and procedures for the purchase, receipt, and storage of equipment.

**Methodology**

To answer the audit objective, we interviewed program officials at USAID/Mexico and the Secretariat of Health. In addition, we reviewed and analyzed program documents and program results reported in the mission's R4 report in 2001.

To determine whether the tuberculosis program was on schedule to achieve planned results, we reviewed the following program documentation: the mission's FY 1999 - FY 2004 Country Strategy for USAID in Mexico; Tuberculosis Strategy; the Tuberculosis Strategic Objective Grant Agreement Number 523-4018 with the Government of Mexico; the Performance Monitoring Plan; the first year workplan; all project implementation letters; the mission's R4

report submitted in 2001; and all correspondence with the Secretariat of Health. Due to the lack of current data on indicator results, we interviewed USAID/Mexico officials to determine if the program was on schedule to achieve planned results. We performed an audit step designed to determine if USAID/Mexico had achieved its planned outputs in 2001 as identified in the first year workplan. We did not perform site visits.

To determine if USAID/Mexico has plans for the use of equipment purchased for the tuberculosis program, we inspected the equipment at the warehouse in Mexico City to verify that it was in USAID/Mexico's possession. A selection of boxes was made by the auditors, and the boxes were opened to verify that the equipment was in the boxes and was in good condition. The selection was based upon auditor determination that all the boxes appeared in good condition. One safety hood was opened; every fifth printer, computer, uninterrupted power source and compact disk kit was opened; and every eighth microscope was opened. For equipment at the warehouse in Laredo, Texas, we reviewed the original warehouse receipt and interviewed the contracting specialist at USAID/Mexico. We interviewed program officials at USAID/Mexico to determine if the mission has plans for the use of the equipment, and we interviewed officials at the Secretariat of Health to determine if it could still use the equipment.

**Management  
Comments**

April 22, 2002

**MEMORANDUM**

**FOR:** RIG/San Salvador, Timothy E. Cox

**FROM:** USAID/ (A) Mexico Director, Janet Paz-Castillo

**SUBJECT:** Comments on draft Audit Report of USAID/Mexico-Financed Program to Develop Institutional Capacity to Diagnose, Control and Monitor Tuberculosis

Regarding the “Audit Findings Section” of the subject report, we would like to add the following information in order to address more accurately the information provided in it, as follows:

*The Ministry of Health (SSA) of the Government of Mexico and USAID signed an Agreement in 2000. This was signed under the previous Administration. Negotiations of the Agreement with Mexico were carried out in a joint collaboration between the International Health Affairs Department and the Epidemiological Surveillance Center. Some of the Mexican Officials that participated during those negotiations are no longer working in those areas. The described situation caused: a) that incoming new Administration wanted to review the Agreement, and b) problems in understanding Implementation Letters. The SSA believes that Implementation Letters are developed to amend the terms of the agreement, increase the workload, and impose new regulations to disburse funds to Mexico.*

*Regarding the Implementation Letters, it was agreed that no Implementation Letter would be issued without Mexico’s feedback.. The new Agreement that is in its final negotiation stages, will spell out the requirements, including the performance indicators in order to limit the use of Implementation Letters. Also, if any parts of the Agreement need to be amended, the SSA and USAID will negotiate those changes.*

*Also, under the terms of the revised Agreement, USAID will be in charge of all procurement and contracting of personnel actions that are required to implement the project.*

Other than the above, we do not have additional comments to include in the mentioned report.